CORPORATE TRANSPARENCY & DISCLOSURE PRACTICES - A CASE STUDY OF FORTUNE 500 COMPANIES OF INDIA

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Introduction

In today's corporate world accountability and transparency have been gaining greater importance due to financial scandals all over the world. Adequate disclosure is necessary to meet the information needs of various stakeholders. Effective communications through disclosure in annual reports ensure transparency and accountability and thus help various interest groups in rational decision making. Adequate disclosure of information is also crucial to efficient allocation of scarce resources in both developed and developing countries. The main reason for the emphasis on disclosure standards and transparency is that disclosure and transparency are the twin cornerstones to protecting shareholders' rights. Shareholders should be treated equally, should be able to participate in the decisions affecting the firm, and should be able to elect directors to represent them. Outside investors need to be assured no individual shareholder (or group of shareholders) receive preferential treatment or has influence greater than their respective share of ownership. Finally, shareholders should also be able to exert their influence over the board of directors and hold directors liable for breaches of their fiduciary duty. Only through full and complete disclosure and transparent management practices can shareholders feel confident that the firm to which they have given their funds is being operated with their best interests in mind. In business activities, investors require timely and correct information to reach effective investment decisions. This kind of information can be collected through many ways, and one of the most important resources is the corporation's annual reports. The most important role of annual reports is to provide relevant, useful and reliable financial information to investors, shareholders and other interested people about the financial position and performance of the business as well as its future prospects to help users in decision-making. The information that has been supplied by annual reports towards their stakeholders includes two types: compulsory and voluntary information. Mandatory disclosure is a basic market demand for information that is required by various laws and regulatory bodies and has been ruled at national or regional level through professional organizations or government authorities. On the opposite, corporate voluntary disclosure, being in excess of requirements, represents frees choices on the part of managers to provide information to users of the annual reports. This voluntary information is disclosed to satisfy the user's needs seem to be inadequately supplied by the mandatory disclosure.

Transparency is often defined as being “completely open and frank about things”. As Dickinson and Millineux (2001) have stressed "Transparency of financial accounting is an obvious requirement of a properly functioning of stock market". With growing globalization, the transparency and disclosures factors have become a cause of apprehension for every organizations. Therefore it can be said that to achieve high performance in the knowledge economy, the company has to develop a trustworthily environment, which in turn originates from transparency.

Fortune (magazine)

Fortune is a global business magazine published by Time Inc. and founded by Henry Luce in 1930. A theme of Fortune is its regular publishing of researched and ranked lists. Its most famous lists rank companies by gross revenue and profile their businesses are Fortune 500, Fortune 1000, Fortune Global 500, Fortune India 500, 40 under 40 (Fortune Magazine), and Fortune Most Powerful Women Entrepreneurs.

Fortune Global 500

The Fortune Global 500, also known as Global 500, is an annual ranking of the top 500 corporation’s world wide as measured by revenue. The list is compiled and published annually by Fortune magazine. From 2001 to 2012, there has been significant change in the geographical distribution of the companies in the Global 500 rankings. The number of North American–based companies have reduced from 215 in 2001 to 144 in 2011, whereas the contribution of Asian-based companies have increased rapidly from 116 in 2001 to 188 in 2012. The share of European-based companies has increased marginally from 158 to 160 over the decade.

Review of Literature

National Reviews:

Sandeep A. Patel, Amra Balic, Liliane Bwakira., (2002), studied on, "Measuring Transparency & Disclosure At Firm-Level In Emerging Markets" have used a new dataset to analyze Transparency & Disclosure scores (t&d score) in 19 emerging markets for 354 firms representing 70% of s&p/ifci index market capitalization over the 3 years. The study finds that the Asian emerging markets and South Africa have significantly higher Transparency & Disclosure compared to the Latin American, Eastern European, and Middle Eastern emerging markets.

Varadraj Bapat, Mehul Raithatha., (2009), worked on "Corporate Transparency through Implementation of Indian Accounting Standards". This study is an empirical investigation on sample of listed companies to determine the extent of compliance with accounting standards leading to transparency in their financial statements. This study is based on primary survey of annual reports. Indian accounting standards mandatory for the listed companies are compared with disclosures made by the companies and examines whether a significant relationship exists between disclosure in financial reporting and a number of key corporate characteristics like size, profitability, leverage, age of company etc. The study is being analyzed that Indian companies have shown high degree of compliance with disclosure requirements of accounting standards.

Sanjay Bhayani., (2012), studied on "The relationship between comprehensiveness of Corporate Disclosure and firm characteristics in India". Disclosure Index has been used to measure corporate disclosure on a sample of 45 listed non financial firm of India. The result of study indicates that the extent of corporate disclosure with in the sample firm varies with in 15% to 75% (app.) for the period of study. The companies with large assets size, higher profitability, higher leverage, listing in foreign stock exchanges, lower holding of promoters share and audited by big audit firms have tendencies to be more transparent and hence disclose more information.

International Reviews:

Robert M. Bushman And Abbie J. Smith., (2003), have conducted the study "What Determines Corporate Transparency?" In their study they analyzed the two distinct factors, first is financial transparency and second is corporate governance transparency and examine that these factors vary with countries legal/judicial regimes and political economies. The financial

transparency factor is primarily related to political economy and governance transparency is connected with legal/judicial regimes.

Duygu Kesten., (2004), has worked on "Evaluating and enhancing transparency and reporting performance of the telecommunications service sector in the ICT industry drawing on the concept of responsible Corporate Governance". This study is based on 4 core elements: stakeholder empowerment, presence of management and performance evaluation systems, transparency enhancement and accountability verification. As a result he finds out that there are still gaps at the level of transparency at the telecommunications sector.

R. Gaston Gelos, Shang-Jin Wei., (2005), have accompanied the study on "Transparency and International Portfolio Holdings". In this study they inspect by constructing new measures of transparency and by making use of a unique micro data set on portfolio holdings of emerging market funds around the world. They distinguish between government and corporate transparency and find that international funds prefer to hold more assets in more transparent markets. They suggest that becoming more transparent can be an effective way for countries to benefit from international financial integration while avoiding excessive volatility during turbulent time.

Richard Price and Francisco Roman., (2006), have worked on "Governance reform, share concentration and financial reporting transparency in Mexico". They examined how financial reporting transparency and quality of Mexican firms vary with corporate governance. They utilize compliance data from the Code of 'Best' Corporate Practices, disclosed annually by public firms in Mexico. They assess this by designating firms with greater compliance as better governed on an annual basis and find out that greater compliance does not lead to improved financial reporting transparency or quality because of the concentrated founding family ownership structure predominant in Mexico.

David Hess., (2007), studied on "Social reporting and new governance regulation: The prospects of achieving corporate accountability through transparency". In this study he identify the key factors for ensuring the social reporting over the long term these factors include increasing the benefit-to- costs ratio of both the user of the information and the disclosers, and recognized the importance of the involvement of third party intermediaries.

Lin, Yu-Chih., (2007), has studied on "The relationship between information transparency and the informativeness of accounting earnings". Examines the relationship between information transparency and the informativeness of accounting earnings. The study suggests that accounting numbers are more useful or valuable than the ITDRS ranking results from investor's perspective. It also suggests that the ITDRS may be not a good proxy for financial transparency.

Mustafa Ozbay., (2009), has studied on "The relationship between corporate transparency and company performance n the Istanbul Stock Exchange". The findings of the study indicate that significant positive relationships between dependent variable (total transparency score) and independent variables (market to book value and market adjusted stock returns) exist and a significant negative relationship between total transparency score and price to cash flow exists, while a positive (but insignificant) relationship between total transparency score and price earning ratio exists.

Alan Au, Paul Thompson & Matthew C. H. Yeung,. (2010), have worked on "Determinants of transparency for Singaporean listed companies". In their study they described, the extent to which companies disclose information about their activities, corporate transparency, is universally regarded as a vital prerequisite for the efficient functioning, vibrancy, and fairness of stock markets. Unlike other measures of transparency it looks not only at the content of the results release but also how that content is communicated to the markets. The study identifies the key determinants of a company's transparency score.

Richard D. Morris, Tam Pham and Sidney J. Gray., (2011), have worked on "The Value Relevance of Transparency and Corporate Governance in Malaysia Before and After the Asian Financial Crisis" in their study they investigates whether the value relevance of financial reporting transparency and corporate governance in Malaysia increased after the Asian financial crisis of 1997 and find out that after the Asian financial crisis, investors have become more sensitized to transparency and Corporate Governance issues.

Takesure Betah., (2013), studied "An Investigation into Determinants of Corporate Disclosure & Transparency of Listed Companies in Zimbabwe during Financial Crisis (2007-2008)" in his study he critically examined the degree of corporate disclosure and transparency using annual reports of 2007 and 2008 of listed companies in Zimbabwe and analyzed corporate disclosure practices as a function of specific firm characteristics. The analysis used the disclosure and

transparency scores extracted from a survey instrument designed to rate disclosure practices of publicly listed companies by using the OECD corporate governance principles as an implicit benchmark. The methodology utilized was mainly on quantitative research. The study indicates that Zimbabwean publicly listed companies have low levels of corporate disclosure and transparency. The results are broadly consistent with the notion that good corporate governance leads to better corporate disclosure and transparency in less developed markets.

Need of the Study:

The lack of interest towards the degree of corporate disclosure and transparency followed by poor corporate governance in the corporate world led the global economy to face financial crisis, financial scandals, and frauds all over the world. These are the clear indication of lapses in the corporate disclosure practices among organisations globally these had led for harmful effects not only on the integrity of financial reporting but also have challenges to accounting auditing profession. In today's corporate world adequate disclosure and transparency is not only required to accountability but also to meet the information needs of various stakeholders for rational decision making and efficient allocation of scarce resources. The effectiveness and credibility of corporate disclosures and Transparency & Disclosure of activities carried out by the corporate are considered vital for attracting foreign investment and also focuses on the survival and growth of the business concern. The present research is therefore tailored to examine whether the corporate all around have enhanced the quality and comparability on Transparency & Disclosure practices.

Objectives of the study

- To assess and compare the intensity of the Transparency & Disclosure practices of selected Fortune 500 companies of India.
- To examine the trends and differences in Transparency & Disclosure of selected Fortune 500 companies of India.
- To study & examine the corporate web-based Transparency & Disclosure practices of the selected Fortune 500 companies of India.
- To examine the factors influencing the Transparency & Disclosure Score.
- To identify area's of weakness in Transparency & Disclosure practices of the selected companies and suggest suitable models for greater Transparency & Disclosure in reporting practices.

Research Methodology

To accomplish the above objectives of the study, the following research methodology is proposed:

- **Sampling Technique**

For the purpose of selection of companies under the study, the companies of India ranked in Fortune Global 500 in the year 2013, excluding banks, financial institution and insurance companies due to their special regulatory requirements, will be taken into consideration.

- **Data collection for Research**

For the purpose of the study, secondary data will be taken into consideration. Secondary data will primarily be collected from annual reports and web-sites of selected companies. In addition, magazines, newspapers, and other reports of selected companies will also be used.

- **Tools for Analysis**

In order to meet out the objectives of the study various descriptive & inferential statistical, accounting and mathematical tools will be used for analyzing the information collected.

- **Duration of study**

For the purpose of the study, the data for the period of three financial years from 2011-12 to 2013-14 will be taken into consideration.

- **Research Hypothesis**

H_0-1= There is no significant relationship between Transparency & Disclosure score and financial performance of the companies.

H_0-2=There is no significant difference between web-based disclosure and annual report disclosure.

❖ **Specific Methodology**

S.No.	Objectives	Methodology
1.	To assess and compare the intensity of the Transparency & Disclosure practices of selected Fortune 500 companies of India.	In order to meet out this objective the information will be collected from the annual reports of the individual companies, which is considered as one of the most common and primary source of public information. The assessment of the level of Transparency & Disclosure will be made by classifying the information in specific areas viz; ownership structure, shareholder's right, financial information, operational information, board & management structure & process. Possible Transparency & Disclosure attributes will identified for each specific areas. A Transparency & Disclosure score (T&D Score) will be determined for each individual areas. In addition to the scores of specific area a single composite score for Transparency & Disclosure will be calculated by taking the scores for each of the specific areas.
2.	To examine the trends and differences in Transparency & Disclosure of selected Fortune 500 companies of India.	To achieve this objective the Transparency & Disclosure score of the companies will accordingly be taken into consideration to examine the difference or variation in the T&D score. The trend will be analyzed on the basis of time series.
3.	To study & examine the corporate web-based Transparency & Disclosure practices of the selected Fortune 500 companies of	The web site has evolved as a key element of Transparency & Disclosure in recent time. A large number of companies provide web- based disclosure which not only include annual reports but also other information related to company which are considered to be important and effective for decision making. Hence, to meet this objective all the information provided in the company website including their hyperlinks will be used to determine the level of transparency and disclosure. A web- based disclosure score will

	India.	also be determined, which will also be used to determine the composite T&D score.
4.	To examine the factors influencing the Transparency & Disclosure Score.	This objective will be met out by examining the independent variables on firm characteristics and corporate governance characteristics the composite transparency score will be considered as dependent variable and both corporate governance and company characteristics will be considered as independent variables. A multiple regression analysis will be carried out to draw the inferences.
5.	To identify area's of weakness in Transparency & Disclosure practices of the selected companies and suggest suitable models for greater Transparency & Disclosure in reporting practices.	The various attributes based on annual report & accounts and regulatory filling as recommended by S&P for evaluating Transparency & Disclosure practices of the Indian companies of Fortune Global 500 will be examined to identify the area's of weakness in T&D reporting practices and suitable models will be suggested which can overcome these weakness and provide greater transparency which will enable various stakeholders to effectively monitor management actions, operating and financial performance.

❖ **Proposed Chapter Plan**

Chapter Number	Chapter Name
Chapter One	Introduction and Review of Literature
Chapter Two	Conceptual framework of Corporate Transparency & Disclosure practices
Chapter Three	Corporate Transparency & Disclosure practices based on Annual Reports: An Assessment
Chapter Four	Corporate Web-Based Disclosure Practices: An Assessment
Chapter Five	Transparency & Disclosure Models
Chapter Six	Conclusions and Suggestions

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